Conference Call
First quarter report of 2012
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Thank you, René Obermann!

Let us turn to the details of the first quarter now. The revenue trend in Germany improved to -2.3 percent after -6.1 percent in the fourth quarter of 2011, partially driven by the discontinuation of the MTR impact and some of the one timers last year.

But we also saw an improvement in traditional fixed-network business from -4.5 percent in the fourth quarter of last year to -2.6 percent. The main drivers were lower line losses and healthy growth in our TV revenues.

In addition, the performance of wholesale revenues improved significantly, up from -11.6 percent in the fourth quarter of 2011 to -3.9 percent at present, mainly driven by an improvement in voice and network services.
The adjusted EBITDA for Germany declined by 2 percent in the first quarter, helped by a 1.6-percent opex reduction, resulting in a healthy margin of almost 41 percent – a slight increase compared to the prior-year period.

Mobile revenues declined by 1.2 percent year-on-year, driven by a 1.8-percent deterioration in service revenues compared with a 0.4-percent increase in the fourth quarter on a like-for-like basis. I will come back to this in more detail in a second.

Smartphone and iPhone sales figures in the first quarter were strong, with total smartphone sales rising by almost 8 percent to 863,000. Total customer and contract customer intake however was negative. René Obermann already identified the key influencing factor. However, our branded contract customer churn remained stable at a rock-solid 1 percent.

We are accelerating our LTE build-out to full capacity, with our coverage already extending to one quarter of the German population at the end of the first quarter. This represents an 11-percentage-point increase in coverage in the last quarter alone.

Mobile service revenues in the first quarter declined by 1.8 percent year-on-year, mainly driven by the decline in voice revenues, text-message revenues and visitor revenues, which was not fully compensated for by the healthy 20-percent growth in mobile data.

Looking at it from the way we steer the business, i.e., from a customer segment perspective, the picture is as follows:

Mobile service revenues for business customers declined by 1.5 percent, driven by price declines as a result of tough competition, which was not entirely compensated for by customer growth.
Service revenues in consumer business declined by 2 percent, primarily as a result of the following factors:

- Continued migration of customers within our rate portfolio to lower-priced rates,

- Lower service provider revenues due to the customer migration of one service provider,
- Lower prepay contribution due to lower voice usage and a deteriorating prepay-customer mix.

So what key initiatives and measures will we use to address these weaknesses going forward?

Within our contract customer base, we will focus on mobile broadband services, particularly on LTE, tablets, sticks, and data rates. We will also manage rate migration even more intelligently in future.

At the business customer end, we will expand our CRM activities and try to tap the considerable potential of our fixed-only customers better, in particular with mobile data offers.

On the service provider front, we will continue our efforts with target-group-specific and discount brands and will also adjust our wholesale product portfolio.

In prepay, we will come up with new propositions for our customers.

In the German fixed broadband market, we stabilized our market share in excess of 45 percent in the first quarter. This resulted from an improved market share of net adds of over 30 percent.

At the same time, we saw another very strong quarter in IPTV sales, with 173,000 new Entertain customers. We continue to extend our broadband coverage in Germany, with current VDSL coverage of 36 percent, DSL 16 Mbit coverage of 53 percent, and EntertainSat coverage of 82 percent.

Turning to Europe now, we saw the trend improvements from the previous quarters continue. Consequently, revenue and adjusted EBITDA on an organic basis had almost stabilized in the first quarter. The growth in key market KPIs, such as TV, broadband, and mobile contract customers, remained strong in the first quarter. And this despite the economic situation in some of the markets like Hungary, Croatia, and Greece remaining very difficult.

Revenue in Greece improved further in the first quarter, due in particular to the good performance of mobile business, which resulted from a larger subscriber base and revenue initiatives in the consumer segment. Revenues in fixed-network business still remain under pressure from unfair ex-ante regulation that is not in the interest of consumers and that undermines the competitiveness of our offerings. The margin in Greece remained broadly stable year-on-year at 37.7 percent.

The economic situation in Croatia deteriorated in the first quarter and austerity measures like the reinstatement of a 6-percent mobile tax, the introduction of a tax on dividend payments, and an increased VAT of up to 25 percent make the situation even more difficult.

Operationally, the business held up quite well, with revenues being helped by our ICT business combinations and a higher year-on-year margin. Further cost savings and staff reductions are planned and have been announced for the current year.

Turning to Hungary now, the economic situation remains critical, as you are all aware. Our figures in euros were negatively influenced by exchange rate effects once again. The new usage-dependent tax on telco revenues that has been announced as a replacement for the old telco tax would place an additional burden on consumers and business customers, thereby potentially jeopardizing the country's competitiveness.

With respect to the competitive environment, all three mobile operators filed an appeal against the decision to distribute frequency to the new market entrant, but have so far been unsuccessful. In this difficult environment, our local management team is doing an impressive job of fighting revenue declines using innovative approaches like reselling electricity, gas, and insurance contracts via their sales channels and by providing integrated state-of-the-art fixed and mobile offerings. The year-on-year comparison of EBITDA is negatively impacted by a one-time effect in the first quarter of 2011, which positively impacted earnings at the time.

In Slovakia, we returned to revenue growth in the first quarter, mainly driven by fixed-line and ICT revenue growth, whereas the margin dropped year-on-year against the very strong first quarter of 2011. On a positive note, at 31 percent and 10.5 percent respectively, growth in TV customer and IPTV customer numbers was very strong this quarter.

Our mobile business revenues in Europe were impacted by fierce competitive pressure, tough regulation, and a weak Polish zloty and Czech koruna in the first quarter.

Revenues in Poland were heavily impacted in the first quarter by exchange rate effects and the MTR cuts. Excluding these effects, revenues were up by 3 percent, mainly driven by device revenues due to higher smartphone sales. EBITDA was almost at the prior-year level in spite of fierce competition.

Revenues in the Netherlands were positively impacted by a higher subscriber base, increased device revenues due to more smartphones being sold, and the residual effects from the unlimited offer cancellations already seen in the fourth quarter.

The EBITDA increase can be explained by a relatively weak first quarter of 2011, lower market investments, and sustained cost savings. The fact that we outperformed our main competitor KPN in terms of service revenues and contract net adds is also very positive.

We are facing tough competition in the Czech Republic. Excluding exchange rate and regulatory effects, revenue was positive at 1.9 percent, while there was a slight 2.9-percent decrease in EBITDA. This was due to a strong smart-phone push, leading to an increase in the share of smartphones sold from 30 percent last year to 49 percent in the first quarter of 2012. This positive trend is also reflected in the solid 24 percent growth rate in mobile data revenues.

In Austria, we saw continued contract customer growth in the first quarter and a strong smartphone push: 74 percent of all devices sold in the first quarter were smartphones. Revenues declined by 1 percent. Excluding regulatory effects, revenues increased by 3.5 percent.

We saw a slight revenue decline of 0.7 percent for Systems Solutions in the first quarter, mainly driven by lower internal revenues, whereas external revenues showed a slight increase, which results in a similar picture to that seen in the fourth quarter of last year.

On the EBITDA and EBIT front, we made some progress compared with the first quarter of last year, which was particularly weak, owing mainly to EUR 166 million in gross cost savings in the quarter.

Turning to Group financials, free cash flow was very solid, increasing by 5.7 percent to EUR 1.1 billion. The improvement was predominantly due to lower tax and interest payments. At EUR 2.1 billion, cash capex performed stably at a high level.

Let us turn to the development of reported net profit. Despite the positive impact of an improved financial result and lower P&L taxes in particular, reported net profit decreased year-on-year. This decrease was primarily due to provisions for staff-related measures as well as to an increase in depreciation and amortization at T-Mobile USA.

We provisioned EUR 464 million in the first quarter for early retirement programs in Germany. We saw a similar effect in the second quarter of last year, totaling EUR 670 million at the time. From this, you can see that the temporal distribution of these special factors in 2012 is different to that in 2011.

Total depreciation, amortization and impairment losses increased, as depreciation and amortization were recognized fully again in the accounts of T-Mobile USA in the first quarter of 2012. Depreciation and amortization ceased to be recognized in the first quarter of 2011 in accordance with the applicable accounting standards from the moment T-Mobile USA was designated as "held for sale”.

This depreciation effect will also reduce net profit year-on-year in the second and third quarters of 2012. The effect will be reversed in the fourth quarter of 2012, as the depreciation and amortization not charged in 2011 was retrospecttively charged in full in the fourth quarter of 2011. This will not impair the comparability of the net profit for the full year.

We turn now to our balance sheet ratios, where both the net debt over EBITDA ratio and gearing were further improved. Net debt dropped significantly below the EUR 40-billion mark to EUR 38.6 billion, while shareholders’ equity remained stable at around EUR 40 billion. We continue to maintain solid ratings with a stable outlook from all major rating agencies.

It is important to note that we currently have very favorable refinancing terms, particularly when compared with some of our peers. We took advantage of this earlier this year for some bond issuances, which now leaves us re-financed for almost 36 months, way ahead of the target figures we communicated for our liquidity reserve.

And now René Obermann and I look forward to taking your questions.